amo REPORT

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PROPERTY TAX: A PROVINCIAL TAX? PRESENTATION TO THE STANDING COMMITTEE ON FINANCE & ECONOMIC AFFAIRS

THE ASSOCIATION OF MUNICIPALITIES OF ONTARIO
MARCH, 1989

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ASSOCIATION OF MUNICIPALITIES OF ONTARIO

The Association of Municipalities of Ontario, a non-partisan voluntary organization, is united to promote the values of the municipal government system and the status of the municipal level of government as a vital and essential component of the total inter-governmental framework of Ontario and Canada.

The Association acts as the collective voice of Ontario's municipal governments and is organized to accomplish through cooperation and coordination, what the majority have neither the time nor the resources to do individually.

The Association represents some seven hundred (700) municipal governments throughout Ontario. The governing body is composed of some eighty (80) municipal elected and appointed officials, who in turn represent a wide-range of municipal government interest.

The following sections and affiliated municipal professional associations form an important part of the Association's structure and therefore, play an important part in its activities in terms of the Board of Directors, program and policy development:

Association Sections:

* County and Regional Section
* Large Urban Section
* Northern Ontario Section (FONOM/NOMA)
* Rural Section (ROMA)
* Organization of Small Urban Municipalities Section

Association Affiliates:

* Association of Municipal Clerks and Treasurers of Ontario
* Association of Municipal Tax Collectors of Ontario
* Municipal Engineers Association
* Ontario Municipal Administrators Association
* Ontario Municipal Personnel Association
* Ontario Municipal Social Services Association
* Society of Directors of Municipal Recreation of Ontario
* Urban Finance Officers Association of Ontario

To the Municipal Clerk:

Please circulate this Report to the members of council and to the staff of your municipality. Additional copies are available at $5.00 each from the Publications Centre, Association of Municipalities of Ontario, 100 University Avenue, Suite 805, Toronto, Ontario, M5J 1V6.

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The Association presented "Property Tax: A Provincial Tax?" to the Standing Committee of the Legislature on Finance and Economic Affairs on March 9, 1989. AMO also forwarded the document to the Treasurer of Ontario, the Minister of Municipal Affairs and all Members of Provincial Parliament.

PREFACE

Over 700 member municipalities have joined forces under the auspices of the Association of Municipalities of Ontario to voice concerns about the current provincial-municipal relationship. This brief is submitted to the Standing Committee on Finance & Economic Affairs on their behalf.

The Association is concerned that the Provincial government appears to have a "hidden agenda"; hidden in that to date their true course of action has not been publically or openly stated. However, in recent months with each announcement of initiatives, the agenda becomes clearer.

The "hidden agenda" is to access municipal revenue sources, both property tax, and others such as lot levies.

Provincial programs are being shifted to municipal government.

The Province continues to under-fund existing and new programs by historically inadequate cost-sharing formula.

The Provincial government continues to announce increased services and program enhancements, without changing the provincial-municipal funding relationship.

The Provincial government is passing their "contentious" decision-making to the local level.

In 1985 the Treasurer of Ontario initiated changes in the budget process by appointing a Standing Committee of the Legislature on Finance and Economic Affairs to carry out pre-budget consultation.

The Association of Municipalities of Ontario has participated for several years in this pre-budget consultation process by appearing before the Standing Committee and also by meeting with the Treasurer of Ontario.

AMO past presentations have presented a "shopping list" of municipal concerns or funding priorities, for consideration of the Treasurer of Ontario in his budget decisions.

This 1989 presentation to the Standing Committee on Finance and Economic Affairs states that provincial programs are increasingly being funded by the property tax payer.

Unless this trend is reversed, there will be significant property tax increases and service cuts for Ontario citizens.

PROVINCIAL PRIORITIES AT MUNICIPAL EXPENSE

Municipalities are being given an increased range of responsibilities. Despite this, transfers to municipalities are lower than those of any other local sector and have been for many years. For example transfers in 1989 are:-

hospitals	8.1 per cent,
universities and colleges	7.5 per cent,
schools	6.1 percent and
municipalities	5.4 per cent.

In his communications to municipalities the Minister of Municipal Affairs stated "Increases in funding to municipalities have been directed to conditional grant programs to meet specific needs the Provincial government believes most important". There is very little indication that the Province has considered municipal priorities as viewed by municipal government.

Provincial priorities for the 1989-90 Provincial budget appear to have been already established by the policy decisions of the 1989 Transfer Payment announcement in December with the allocations of: 10.8 per cent to General Welfare Assistance, 11.3 per cent to sewer and water, 11.4 per cent to transit; and 13.9 per cent to day care.

Municipalities do not necessarily disagree with this prioritization by the Province. However, municipal government strongly disagrees with the allocation when it is done at the expense of the municipal tax payer. Each of the increased allocations require matching municipal dollars.

On December 12, 1989 the Minister of Municipal Affairs and Treasurer of Ontario also announced, without warning or prior consultation, the "freezing" of the unconditional grant program. The zero per cent increase to this grant to municipalities has a serve to disastrous impact on some municipalities. It marks a significant financial policy

direction of the provincial government. It is one in which the government illustrates that:

- there is an obvious lack of commitment to the Unconditional Grant Program as a funding mechanism for municipal government
- the Government appears less supportive of municipal government as a democratically elected body, which is more responsive to local needs and circumstances.
- there is a misunderstanding of the relationship of conditional /unconditional funding and the impact of the flat-lining of the Unconditional Grant Program at the expense of certain conditional grants. The freeze in the unconditional grant program makes it extremely difficult to cost-share the other conditional funding areas, i.e. day care, transit, sewer and water.
- the Provincial government has assumed that Provincial priorities must be funded at the expense of municipal government priorities. This seems to suggest that municipal priorities are at odds with provincial directions in the intergovernmental partnership of delivering cost-shared programs and government services.
- the Province of Ontario has assumed that Provincial priorities and municipal services must be increasingly funded by the municipal revenue base, through property tax increases and user fees.
- the Government of Ontario has brought into question the basic principles of the appropriateness of the property tax base for funding programs and services which are primarily controlled and regulated by the Province, with little local flexibility and scope for municipal decision-making.
- the lack of advance notification to the municipal sector and to the Association signifies deteriorating provincial-municipal relations.

TAX SHIFTS

Provincial Government responsibilities are being shifted to municipalities. The list is endless. For the sake of brevity, AMO will only highlight a few.

Bill 187 - Police and Sheriffs Statute Law Amendment Act.

The Provincial Legislature is currently considering a bill which will require municipal police to provide court security. This will cost the City of Peterborough $204,630 per year in additional staffing alone. The City of Sault Ste. Marie will have to add $400,000 to its 1989 budget. And, the City of Windsor has calculated the additional cost for providing this service to be in the range of $530,000 to $795,000 per year. The Metropolitan Toronto Police Commission will have to add $7.5 million to its 1989 budget.

MISA

The Provincial Government is intent upon cleaning up the environment, a worthy endeavour. MISA (the Municipal Industrial Strategy for Abatement) will give the responsibility for monitoring and regulating industrial discharges into the sewer system to municipal government. The financial resources to carry out the program have not been provided. However, the Environmental Protection Act was amended in 1987 to ensure that the liability and higher fines for non-compliance would be with municipalities. Some preliminary and very conservative cost assessments have been done by a few municipalities.

The City of Sault Ste. Marie has indicated an initial $50,000 to develop the sewer use monitoring program, another net cost of $50,000 for capital equipment plus an annual operating budget of $165,000 to $225,000 for the first operating year.

In the City of London it will cost an additional $550,000 per year for pollution monitoring only, at their plants. This calculation does not include capital costs for equipment or plant enhancements.

General Welfare Assistance

In the spring of 1988 and on December 6, 1988 the Honourable John Sweeney, Minister of Community and Social Services announced enhancements to the welfare rate. There is an impact for these recent welfare improvements. Changes to the shelter subsidy component only, cost the City of Sault Ste. Marie $48,000 per year. The Association does not dispute the benefits to society of welfare system improvements. Municipalities do dispute the increased property tax dollars to finance these improvements. The future is uncertain due to the likelihood of significant reform to the income maintenance system resulting from public pressure to implement the recommendations of the SARC report.

AMO is aware that further enhancements could negatively impact 1989 municipal budgets. As the Provincial government responds to public pressure to implement the recommendations of the Social Assistance Review Committee (SARC) there may be changes to this cost-shared program this spring after municipal budgets have been completed.

Roads

As the municipal roads assistance program will be funded at the 1988 level of $678 million, municipalities will now be faced with the very real possibility of having to spend additional 100 per cent municipal dollars to make up for the limited provincial support in this area. For example, the City of Kingston in preparing its 1989 budget has had to levy to provide additional revenue in an attempt to reduce their capital works back log. The allocation will be added to the "normal" mill rate increases at: 3% for 1989, 6% for 1990 and 9% for 1991.

The County of Peterborough will levy an additional 16.6 % from its area municipalities to make up for lost funding under the roads grant and unconditional grant program.

The County of Brant has lost $209,800 in roads funding for 1989. The County states that their only revenue source is local property assessment, already increased for other program needs. Their only alternative is to decrease roads maintenance and construction.

Lot Levies

The Association does not support the intrusion of the Provincial government into the lot levy field. The proposed reduction in the Ministry of Education's cost-sharing formula for capital assistance from 75 per cent to 60 per cent is an intensification of transferring legislated provincial responsibilities to the municipal revenue base.

There appears to be an assumption by the Province, that the reduction in Provincial funding, will be assumed by lot levies. As many municipalities do not now use lot levies, this leads one to conclude that the Province is encouraging municipalities to enter into this field. Increased levies to compensate for decreasing provincial funding, and new lot levies for school capital run completely counter to the other policy direction of the Government, more affordable housing.

With lot levies "constrained" by the market and with reduced Provincial funding, the achievement of "affordable" housing will be via the new provincial tax, the property tax.

CONFUSION AND UNCERTAINTY

There appears to be contradictory evidence that the Province of Ontario is facing economic hardship. The municipal sector truly questions statements about "fiscal constraints" when viewing Treasury and Economic information.

The December 31, 1988 quarterly update of the Minister of Treasury and Economics states that provincial revenue is up $390 million. This improvement is attributed to "recent notification from the federal government that it had underestimated current and prior years entitlements for personal income tax payments. Also mining profits tax and land transfer revenue have increased".

The Treasurer states that the $300 million revenue increase will go to school boards for capital construction. Is this not however, the same 300 million already accounted for in the spring 1988 budget plan which states: "The budget announces a $900 million, 3 year capital commitment that will support an estimated $1.3 billion in elementary and secondary school construction?"

The following excerpts from government documents provide further confusing information.

The Honourable Robert Nixon, Treasurer of Ontario in his Statement to the Legislature regarding 1989-90 Transfer Payments, December 12, 1988

> *"Unconditional grants will be funded at $871 million again next year, and municipal road assistance will also be maintained at the $678 million level. The financial position of our municipal sector has strengthened in recent years and I believe that these allocations are realistic and in keeping with changing priorities. To fund local priority activities and projects beyond these levels, many municipalities will choose to raise additional funds from local financing sources."*

Economic Outlook and Fiscal Review, Ontario 1988", published in December 1988 by the Ministry of Treasury and Economics

> *"As a group municipalities are in a better position than the Province with respect to their debt burdens. "Debt" includes total long term debt and sewer and water project debt. In 1987, total municipal own purpose debt was approximately $3 billion, or about 26 per cent of total annual revenues. By comparison, total Provincial own-purpose debt was 114 per cent of annual budgetary revenue."*

The Honourable John Eakins, Minister of Municipal Affairs, in his December 1988 communications to municipalities reporting their 1989 unconditional grant allocation:

> *"As the Treasurer has indicated, the Province is in a period of financial restraint. It is therefore extremely important that provincial tax dollars are allocated in such a way as to support provincial priorities. For that reason, increases in funding to municipalities this year have been directed into conditional grant programs to meet specific needs the provincial government believes are most important."*

Economic Outlook and Fiscal Review, Ontario 1988, Ministry of Treasury and Economics

> *"Ontario is entering its seventh consecutive year of economic growth.*
> *Driven largely by business investment the economy should continue to expand in 1989. The rate of growth will be more moderate and sustainable, with real Gross Domestic Product increasing by 2.9 per cent.*
> *Unemployment will average 5.0 per cent, unchanged from 1988 and the lowest level since 1974.*
> *Inflation will remain stable, rising only slightly to 5.1 per cent".*

Why therefore won't the government honour its provincial-municipal partnership commitments?

On January 19, 1988 the AMO Executive Committee met with the Honourable Robert Nixon, Treasurer and the Honourable John Eakins, Minister of Municipal Affairs. Robert Nixon stated that the Provincial government was facing many difficult decisions in establishing funding priorities for the upcoming year. The municipal sector had suffered at the expense of the health care system. The Treasurer of Ontario indicated that the Government was facing some difficult prioritization of programs due to reduced revenues. It was anticipated that there would be an economic slow-down; therefore a reduction in provincial revenues from its taxation system. The Treasurer also indicated that Established Program Financing (EPF) had been reduced from 50 to 38%. This caused a reduction in availability of funds for health care and post-secondary education. The Treasurer indicated that the rate of increase of provincial expenditures was around 9 - 10% per year, primarily attributed to the health care and social service system. It was predicted that expenditures would continue to grow but revenues would decline. This, added to the federal-provincial transfer reduction indicated an adjustment in a rate of
expenditures. The Treasurer noted that municipal mill rate increases had been generally low for the past few years. Municipalities would have to increase their property taxes to meet their own priorities.

The Treasurer of Ontario also stated that he himself favoured unconditional funding as opposed to conditional funding. Why therefore was this fundamental program cut?

CONCLUSION

The Association and municipalities across Ontario have come to some of their own conclusions regarding these conflicting and at times contradictory messages.

Is the Province facing financial restraint?

- Health costs are rising and must be addressed by the Provincial government as a provincial responsibility. However, reduced funding from the federal government (EPF) should not be passed on to the property tax payer.
- Recent quarterly reports seem to indicate a $390 million windfall in federal-provincial transfers which has only been partially allocated through previous expenditure commitments.

Do municipalities have more debt capacity and room for mill rate increases?

- Municipalities are restricted by OMB guidelines in their capacity to assume debt. The OMB and the Ministry of Municipal Affairs have determined that a municipality should not commit more than 20 per cent of its budget to debt servicing.
- Moderate mill rate increases and reduction in municipal debt are the result of sound municipal management practices and the legislated requirement to balance the budget!
- Municipal government should not be penalized for good management.

Who pays?

- Municipal expenditures have rapidly increased, at a rate of 11.8 per cent in 1988. Regional governments averaged 13.2 per cent in 1988. (Ministry of Treasury and Economic Statistics)
- The combination of "moderate" mill rate increases, an overall reduction in provincial funding and rapidly rising municipal expenditures, suggests that both provincial priorities and municipal priorities are not being adequately addressed.
- The citizens of Ontario pay.

How are Ontario's citizens affected?

- Programs are announced but their objectives are not met.
- Services will be reduced. For example, if the service is "discretionary" such as day care, fewer spaces will be available. The single parent remains on the welfare roll, with no day care space for the children.

- Provincial caps on funding for local homes for the aged translates into the "heavy" care population being discharged or kept in chronic care beds in hospitals.
- In the future development will be restricted due to lack of financing for sewer, water and roads. This restricted development will result in higher priced homes, completely contradictory to the Provincial government's priority of increasing the supply of "affordable" housing.

The Provincial government's intrusion on the property tax base means that ratepayers are going to be paying a bigger share. The citizens of Ontario will be paying a "hidden" tax for big ticket items to compensate for decreased Provincial funding. Some of these will be sewer and water services, roads, the welfare system and school construction.

The Association, and member municipalities are not optimistic about the spring 1989-90 Provincial budget, or the future.

RECOMMENDATIONS

The erosion of the municipal revenue base must stop. All leads AMO to conclude that both levels of government must cooperate to serve our citizens future needs.

Recommendations

1. *The Association urges the government of Ontario to provide an economic increase on the unconditional grant program for 1989 so that municipalities will have some revenue capacity to respond to the growth in the conditional grant areas.*

   The Association requests an allocation of 5% of $871 million ($43 million) and that the formula be allowed to operate to avoid "catch-up" in future years.

2. *In a gesture of cooperation, the Association urges the Provincial Government to establish a provincial-municipal review of local government finance to develop a more responsive financial partnership for the future.*

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